

Message Text

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INFO ALL EC CAPITALS

C O N F I D E N T I A L SECTION 01 OF 03 BRUSSELS 07715

USEEC

PARIS ALSO FOR USOECD

E.O.11652:GDS
TAGS: EFIN, EEC
SUBJECT: EC STATEMENT FOR IMF INTERIM COMMITTEE

1. MISSION HAS OBTAINED ON CONFIDENTIAL BASIS TEXT
OF EC STATEMENT TO BE DELIVERED AT IMF INTERIM
COMMITTEE MEETING IN MEXICO BY DANISH FINANCE MINISTER
HEINESSEN. STATEMENT WAS DRAFTED IN EC MONETARY
COMMITTEE AND APPROVED AT EC FINANCE COUNCIL APRIL 17.
BEGIN TEXT

"SINCE DENMARK CURRENTLY HOLDS THE PRESIDENCY OF THE
COUNCIL OF MINISTERS I SHALL ON BEHALF OF THE EUROPEAN
COMMUNITIES MAKE SOME GENERAL REMARKS.

AT OUR MEETING IN WASHINGTON LAST SEPTEMBER THERE WAS A
WIDESPREAD CONCERN THAT THE UPWARD TREND IN PRODUCTION
AND DEMAND, WHICH WAS VISIBLE IN 1976 AND EARLY IN 1977,
IN MANY INDUSTRIALIZED COUNTRIES ALMOST HAD COME TO A
HALT. SINCE UNEMPLOYMENT WAS STILL AT A HIGH LEVEL THE
ECONOMIC SLOW-DOWN WAS NOT ATTRIBUTABLE TO CAPACITY
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PROBLEMS. THE TREND TOWARD SLOWER GROWTH WAS PARTICU-
LARLY EVIDENT IN WESTERN EUROPE. AGAINST THIS BACKGROUND
WE AGREED AT OUR MEETING LAST SEPTEMBER THAT COUNTRIES
IN A RELATIVE STRONG EXTERNAL POSITION SHOULD MAKE EVERY
EFFORT TO ENSURE ADEQUATE GROWTH, WHICH WOULD BE
COMPATIBLE WITH CONTAINING INFLATION AND THAT OTHER
COUNTRIES HAVING BROUGHT THEIR INFLATION AND BALANCE OF

PAYMENTS PROBLEMS UNDER CONTROL WOULD BE ABLE TO
CONTRIBUTE TO THE GROWTH OF THE WORLD ECONOMY ACCORDING
TO THEIR INDIVIDUAL POSSIBILITIES.

IN THAT SPIRIT A NUMBER OF STIMULATORY MEASURES HAVE
BEEN ADOPTED IN SEVERAL MEMBER COUNTRIES BUT THE TREND
TOWARDS A FASTER GROWTH RATE IS STILL VERY FRAGILE.
DESPITE A VERY WELCOME SLOW-DOWN IN THE UPWARD TREND
OF PRICES THE RATE OF INFLATION WOULD STILL GIVE RISE
TO CONSIDERABLE CONCERN IN MOST OF OUR MEMBER COUNTRIES.
A FURTHER REDUCTION OF THE RATE OF INFLATION WOULD
CERTAINLY MAKE IT EASIER FOR THE MEMBERS OF THE
COMMUNITY TO PURSUE A MORE EXPANSIONARY ECONOMIC POLICY.

AT THE MEETING IN COPENHAGEN EARLIER THIS MONTH THE
EUROPEAN COUNCIL DISCUSSED THE POSSIBILITIES AND THE
WAYS OF ACHIEVING A SUSTAINABLE GROWTH AS A BASIS FOR
A REDUCTION IN THE PERSISTENT HIGH RATE OF UNEMPLOYMENT
WHICH CONTINUES TO BE A SERIOUS SOCIAL PROBLEM. SINCE
THE BALANCE-OF-PAYMENTS STRAINS HAVE EASED SOMEWHAT IN
THOSE OF OUR COUNTRIES WHERE THESE WERE SERIOUS, IT
SHOULD BE POSSIBLE TO PURSUE SUCH POLICIES IN SEVERAL OF
OUR COUNTRIES MORE OR LESS SIMULTANEOUSLY.

AS THE PRESIDENT OF THE EUROPEAN COUNCIL UNDERLINED AS
AN OUTCOME OF THE COPENHAGEN MEETING, IT WAS CONSIDERED
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ESSENTIAL THAT THE COMMUNITY ACHIEVE AN ANNUAL GROWTH
RATE OF 4.5 PERCENT BY THE MIDDLE OF 1979. TO BRING
THIS ABOUT IT WILL BE CRUCIAL THAT BUSINESS CONFIDENCE
IS FURTHER STRENGTHENED. IN THIS CONNECTION WE ARE
CONCERNED ABOUT THE EFFECTS ON THE BUSINESS CLIMATE OF
THE UNSATISFACTORY CONDITIONS IN INTERNATIONAL EXCHANGE
MARKETS SINCE THE LATE AUTUMN OF 1977. THE CONSIDERABLE
AND UNPLANNED EXPANSION IN 1977 OF INTERNATIONAL
LIQUIDITY HAS UNDOUBTEDLY BEEN CONNECTED WITH THE
DOWNWARD PRESSURE ON THE DOLLAR. IN OUR OPINION, THE
DECLINE OF THE RATE OF THE DOLLAR IN RELATION TO THE
CURRENCIES OF THE COMMUNITY IN THE COURSE OF THE LAST
6 MONTHS WAS NOT WARRANTED IN RELATION TO UNDERLYING
PRICE AND COST TRENDS, WHILE THE QUESTION OF THE
APPROPRIATE EXCHANGE RATE STRUCTURE CAN ALWAYS BE SUBJECT
TO ARGUMENTS WE BELIEVE THAT THE IRREGULAR BUT PRONOUNCED
DECLINE OF THE DOLLAR RATE DURING THE WINTER MONTHS HAS
IN ITSELF HAD A NEGATIVE EFFECT ON BUSINESS CONFIDENCE
AND HENCE ON INVESTMENT DECISIONS.

FOLLOWING THE BREAK-DOWN OF THE BRETTON WOODS SYSTEM
WE HAVE HAD A PERIOD WITH FAIRLY SHARP FLUCTUATIONS AMONG

THE MAJOR CURRENCIES. UNDER THE THEN PREVAILING CIRCUMSTANCES THESE MOVEMENTS WERE PROBABLY LARGELY UNAVOIDABLE - AND SOME ADJUSTMENT WAS HELPFUL - BUT WE ARE NOW IN A PHASE WHERE SUCH LARGE CHANGES IN EXCHANGE RATES ARE NOT WARRANTED. WE THEREFORE WELCOME THE MORE ACTIVE DOLLAR POLICIES OF THE US AUTHORITIES WHICH WE SEE AS A NATURAL CONSEQUENCE OF THE OBLIGATIONS

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C O N F I D E N T I A L SECTION 02 OF 03 BRUSSELS 07715

ASSOCIATED WITH THE DOLLAR'S POSITION AS AN INTERNATIONAL RESERVE CURRENCY. TODAY THE ESSENTIAL JOB OF IMPROVING THE BUSINESS AND INVESTMENT CLIMATE WOULD BE FACILITATED IF WE WERE ABLE TO ACHIEVE A HIGHER DEGREE OF STABILITY AMONG THE MAJOR CURRENCY AREAS THAN WE HAVE HAD IN THE RECENT PAST.

THE TIME IS NOT RIPE TO REVERT TO A SYSTEM OF FIXED RATES. IN PRESENT CIRCUMSTANCES, WE WANT TO EMPHASIZE THAT NEED FOR EXCHANGE RATE POLICY TO BE APPROACHED PRAGMATICALLY, THOUGH TAKING ACCOUNT OF DEVELOPMENTS IN COSTS AND PRICES, AND FOR A COUNTRY'S STANCE IN ITS EXCHANGE RATE POLICY TO BE VIEWED AS AN INTEGRAL PART OF ITS OVERALL ECONOMIC STRATEGY. WE FEEL THAT SUCH AN ATTITUDE OUGHT TO BE THE BASIS FOR THE POLICIES OF THE IMF WHEN INTERPRETING AND APPLYING THE SET OF RULES CONTAINED IN ARTICLE 4 OF THE REVISED ARTICLES OF AGREEMENT. I TAKE THE OPPORTUNITY TO EXPRESS OUR SATISFACTION THAT THESE ARTICLES HAVE NOW ENTERED INTO FORCE TOGETHER WITH THE INCREASE IN THE FRAMEWORK OF THE SIXTH QUOTA REVIEW.

TURNING FROM THE BROADER CANVAS TO THE PROBLEMS DIRECTLY
LINKED TO THE FUTURE ACTIVITIES OF THE IMF WE HAVE TO
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ACKNOWLEDGE THAT PROGRESS IN THE DISCUSSION OF SOME OF
THE OUTSTANDING ISSUES HAS TURNED OUT TO BE SLOW COMPARED
TO THE EXPECTATIONS, WE ENTERTAINED DURING OUR LAST MEET-
ING. WE URGE A SPEEDY ENTRY INTO FORCE OF THE WITTEVEEN-
FACILITY AND HOPE THAT BOTH WITH RESPECT TO THE VARIOUS
SPECIAL FACILITIES AND TO THE ORDINARY FACILITIES OF
THE FUND PURELY POLITICAL CONSIDERATIONS WILL NOT LOOM
TOO LARGE TO THE DETRIMENT OF THE FUND'S ROLE AS A NEUTRAL
ARBITER AND AN ADEQUATE AND APPROPRIATE SOURCE OF
FINANCIAL ASSISTANCE TO MEMBER COUNTRIES IN BALANCE OF
PAYMENTS NEED. THE COMING DISCUSSIONS ON THE SEVENTH
GENERAL REVIEW OF QUOTAS AND ON THE QUESTION OF A
FURTHER ALLOCATION OF SDR'S WILL PLAY AN IMPORTANT ROLE
IN THE EFFORTS OF STRENGTHENING THE FUND'S ROLE IN THE
INTERNATIONAL MONETARY SYSTEM. IN OUR DELIBERATIONS ON
THESE SUBJECTS WE WILL HAVE TO TAKE ACCOUNT OF THE
EFFECTS ON INTERNATIONAL LIQUIDITY OF THE RECENT LARGELY
UNCONTROLLED CREATION OF INTERNATIONAL RESERVES.

UNDOUBTEDLY SEVERAL OF MY COLLEAGUES FROM THE COMMUNITY
WILL HAVE COMMENTS TO MAKE ON THE TWO IMPORTANT SUBJECTS
OF THE SEVENTH QUOTA REVIEW AND THE POSSIBLE FURTHER
ALLOCATION OF SDR'S. AT THE PRESENT TIME I WILL LIMIT
MYSELF TO REFER TO THE VIEWS EXPRESSED BY MY BELGIAN
COLLEAGUE AT OUR MEETING LAST SEPTEMBER. I MAY ADD
THAT WE CONTINUE TO CONSIDER THE IMPROVEMENT OF THE
QUALITY OF THE SDR AN IMPORTANT OBJECTIVE, AND WE
BELIEVE THAT A SOLUTION TO THE QUALITATIVE ASPECTS OF
THE SDR WOULD HAVE TO BE FOUND.

RECENTLY THE MANAGING DIRECTOR HAS SUGGESTED A SPECIAL
SDR-ALLOCATION MADE CONTINGENT UPON THE DEPOSITING
WITH THE FUND OF RESERVE ASSETS - IN OTHER WORDS
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REINTRODUCE THE CONCEPT OF A SUBSTITUTION ACCOUNT.
IN OUR VIEW THIS IDEA DESERVES CLOSE STUDY. FURTHER
CLARIFICATION IS NECESSARY, OF COURSE, IF WE ARE TO
PURSUE THIS LINE OF APPROACH, WHICH OBVIOUSLY GIVES
RISE TO MANY QUESTIONS. AT THIS STAGE I SHALL THEREFORE
CONFINE MYSELF TO POINT OUT THAT ANY ARRANGEMENT OF
THIS KIND MUST BE SEEN WITHIN THE CONTEXT OF THE OVERALL

PROBLEM OF CONTROLLING THE DEVELOPMENT IN THE INTER-
NATIONAL LIQUIDITY AS A WHOLE.

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SINCE OUR MEETING TO-DAY WILL BE THE LAST MEETING OF THE
INTERIM COMMITTEE IN WHICH DR. WITTEVEEN WILL BE PRESENT
IN HIS CAPACITY AS MANAGING DIRECTOR OF THE FUND I WOULD
LIKE ON BEHALF OF THE COMMUNITY TO EXPRESS OUR SINCERE
APPRECIATION OF THE WORK PERFORMED BY THE MANAGING
DIRECTOR OVER THE PAST 5 YEARS. THE YEARS SINCE 1973
HAVE BEEN STORMY YEARS WITH THE INTRODUCTION OF A NEW
EXCHANGE RATE REGIME AND WITH THE ADOPTION OF THE
AMENDED ARTICLES OF AGREEMENT. AT THE SAME TIME THE
PERIOD HAS BEEN CHARACTERIZED BY VERY LARGE IMBALANCES
IN THE EXTERNAL ACCOUNTS OF A NUMBER OF FUND MEMBERS AND
ASSISTANCE OF THE FUND HAS IN A NUMBER OF CASES MADE AN
EXTREMELY VALUABLE CONTRIBUTION TO THE ACHIEVEMENT OF A
MORE BALANCE SITUATION. IN A WORLD TROUBLED BY RECESSION
AND INFLATION THE FUND HAS ENHANCED ITS ROLE IN THE
INTERNATIONAL FINANCIAL SYSTEM AND DR. WITTEVEEN
CERTAINLY DESERVES HIGH PRAISE FOR THE WAY IN WHICH HE
HAS GUIDED THE AFFAIRS OF THE FUND THROUGH A VERY
DIFFICULT PERIOD." END TEXT HINTON

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